

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  FRONTIER COMMUNICATIONS OF IOWA, INC.	DOCKET NO. TF-03-516 (RPU-00-4)
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**ORDER APPROVING TARIFF AND BROADBAND PLAN**

(Issued December 31, 2003)

On November 18, 2003, Frontier Communications of Iowa, Inc. (Frontier), filed with the Utilities Board (Board) a proposed tariff incorporating price increases to its basic communications services, pursuant to its price regulation plan under Iowa Code § 476.97. The proposed tariff reflects an across-the-board price increase of 1.5 percent. Frontier proposes to implement the proposed increase on December 31, 2003. Frontier filed revisions to the proposed tariff on November 26, 2003, and December 19, 2003.

The Board approved Frontier's current price regulation plan in Docket No. RPU-00-4 on December 28, 2000, to become effective December 31, 2000. Section III of the plan explains how price increases and decreases for basic communications services are to be handled. Under the plan, Frontier's prices for basic communications services are indexed to inflation as measured by the gross domestic product price index (GDPPI). Annual price changes are determined by the change in the GDPPI. Price decreases of less than 2 percent may be deferred for

one year. In 2002, the price plan adjustment formula indicated Frontier's prices for basic communications services should be decreased by 1.5 percent, or about \$145,000 in annual revenue. In its filing in Docket No. TF-02-256, Frontier opted to defer this decrease. This year, in contrast, the price plan adjustment formula indicates Frontier's basic communications service prices should be increased by 1.5 percent.

Frontier has also incorporated in this filing a proposal for a plan for deployment of advanced telecommunications services (the Broadband Plan). Frontier currently has DSL broadband capability in 29 of its 35 Iowa exchanges. Frontier proposes to use the deferred decrease to support deployment of advanced services in the six Frontier exchanges that do not currently have broadband availability, pursuant to the provisions of Iowa Code § 476.97(12) (2003). This would bring DSL capability to each of Frontier's exchanges, although not all customers would be able to receive DSL services, due to loop length limitations, carrier system limitations, and other technological factors.

Section 476.97(12), which was added to the Iowa Code during the 2003 session of the General Assembly, creates the Iowa Broadband Initiative. Under this program, price-regulated local exchange carriers have the option to use the revenues from deferred price decreases to provide advanced telecommunications services in areas where those services are not currently available. In order to do so, the carrier must file with the Board a plan describing the carrier's proposed use of the funds.

Frontier states that the rule making proceeding in which the Board will specify the required contents of a broadband plan, Docket No. RMU-03-9, is not yet final. However, Frontier's proposed Broadband Plan is substantially consistent with the proposed rules and complies with the statute. On that basis, Frontier proposes to implement its Broadband Plan now. In support of its proposal, Frontier states:

1. Frontier has already installed DSL capability in 29 of its 35 exchanges. The exchanges that do not have this capability are Ashton, Battle Creek, Early, George, Nemaha, and Sac City.
2. The estimated cost to deploy advanced services to these six exchanges is \$244,972. These advanced services would comply with the definition in Iowa Code § 476.97(12)"b."
3. The projects would be completed in 2004.
4. Frontier would file a report by February 28, 2005, outlining its expenditures on these projects.
5. If the planned expenditures are projected to fall below the \$145,000 level, Frontier would file a revised plan for the Board's approval.
6. Frontier does not propose to make its advanced services facilities available as unbundled network elements or for resale pursuant to the FCC's Triennial Review Order.
7. Frontier intends to either terminate the Broadband Plan or file an updated Broadband Plan concurrent with its annual price regulation filings.

Frontier would then make an adjustment to carry-forward any expenditure over/under the \$145,000 level to the subsequent broadband plan period.

8. The lifeline credit would increase by \$.20 per access line in compliance with Iowa Code § 476.97(12)"c"(7).

No objections to either the price plan adjustment or the Broadband Plan have been filed. The Board will approve Frontier's Broadband Plan and its price plan adjustment, as discussed below.

First, the Board has reviewed the calculations for the 1.5 percent price plan adjustment proposed to be effective December 31, 2003, and finds that Frontier has correctly calculated the price adjustments, pursuant to the terms of Frontier's price regulation plan.

Second, regarding the proposed Broadband Plan, Iowa Code § 476.97(12)"c" expressly permits a price-regulated local exchange carrier to use a deferred price plan decrease to initiate its participation in the broadband initiative. While the proposed rules in Docket No. RMU-03-9 are still under consideration, that is no reason to delay Frontier's use of the revenues associated with its deferred decrease. The Broadband Plan filed in this docket is adequate for the purpose of making DSL available in the remaining six Frontier exchanges using the deferred decrease.

This is particularly true because Frontier's Broadband Plan is a one-year plan; that is, the projects are expected to be completed within the year. This appears to be a reasonable expectation, as the plan involves a relatively small number of

exchanges. However, any future Frontier broadband plans will be required to conform to the requirements of the Board's rules in effect at that time.

Further, the language in the Broadband Initiative legislation relating to deferred decreases was intended to provide "seed money" to initiate a plan for deploying advanced services, but that does not mean the carrier will never have to implement those deferred decreases. Thus, if a carrier has a one-year plan and uses the deferred balance to fund this plan, then at the end of the plan the deferred rate reduction should be reflected in the carrier's permanent rates. If Frontier wishes to continue using the deferral as a funding source for future deployment of advanced services, it will have to be done as a part of a future plan filed under the Board's rules; otherwise, the 1.5 percent decrease from Docket No. TF-02-256 should be reflected in Frontier's next price plan adjustment filing.

Finally, the Board notes that Frontier's Broadband Plan states that, pursuant to the FCC's Triennial Review Order released August 21, 2003, Frontier will not make the advanced service facilities financed by this Broadband Plan available for wholesale purchase by its competitors, either as unbundled network elements or for resale. The Board has no opinion regarding Frontier's obligations pursuant to the FCC's order, but the Board notes that Iowa Code § 476.97(12)"c"(5) provides, in relevant part, that by choosing to participate in the Broadband Initiative, a carrier agrees to make available to other carriers, on both a wholesale and an unbundled basis, the services and facilities that result from implementation of the participating

carrier's plan. This statutory requirement applies to Frontier's Broadband Plan, separate and apart from any requirements of the FCC's order.

**IT IS THEREFORE ORDERED:**

1. The price regulation plan calculations filed by Frontier Communications of Iowa, Inc., on November 18, 2003, and revised on November 26, 2003, and December 19, 2003, showing an across-the-board price increase of 1.5 percent are approved.

2. The Broadband Plan filed by Frontier Communications of Iowa, Inc., on November 18, 2003, is approved as described in this order.

**UTILITIES BOARD**

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

Dated at Des Moines, Iowa, this 31<sup>st</sup> day of December, 2003.